

Athens, 16.03.2017

## **Compliance Officer's 2016-2017 Annual Compliance Report**

on the adoption of measures set out for the implementation of the Compliance programme in the Company DESFA S.A.

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***Disclaimer on the English Translation***

***The present Annual Compliance Report is an unofficial English translation for convenient purposes only. Accordingly, any prospective reader should also refer to the official Greek version, which is the prevailing document for all purposes.***

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This Report was prepared based on information supplied to DESFA's Compliance Officer by the Hellenic Gas Transmission System Operator SA ("DESFA SA"), as part of his duties for period 2016-2017.

According to Law 4001/2011, as amended and in force, this annual report must be posted on DESFA's official website ([www.desfa.gr](http://www.desfa.gr)) within five days from the date it is submitted to the Greek Regulatory Authority for Energy (RAE), and must be completed no later than March 31st every year.

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## Acronyms

DEPA: Public Gas Corporation SA

DESFA: Hellenic Gas Transmission System Operator SA

DG COMP: Directorate-General (DG) for Competition

ENTSOG: European Network of Transmission System Operators for Gas

GSC: Gas Supply Company

HP: Hellenic Petroleum SA

IDEA: Independence of DESFA, Data confidentiality, Equal user treatment, Adoption of transparent procedures

ITO: Independent Transmission Operator

LNG: Liquefied Natural Gas

NNGS: National Natural Gas System <sup>1</sup>

NNGTS: National Natural Gas Transmission System <sup>1</sup>

RAE Regulatory Authority for Energy

VIU: Vertical Integrated Undertaking<sup>2</sup>

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<sup>1</sup> The NNGS includes, also, the LNG facility, while the NNGTS does not include the LNG facility.

<sup>2</sup> DEPA is considered to be the VIU at the moment of the current annual report implementation.

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## CHAPTER I

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### 1 Introduction

This report has been conducted in accordance with the European Directive 2009/73/EC “Concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC” (law 211/2009) and provisions of law 4001/2011 (Government Gazette A’ 179/22.8.2011), as amended, “For the operation of Energy Markets in Electricity and Natural Gas for Hydrocarbons Research, Production and Transmission Networks and other provisions”, (article 63H par. 3b and par. 7). This work has been pursued by Dr. Eleftherios Amoiralis, Ph.D. in Industrial Engineering and Management, (hereinafter referred to as Compliance Officer) and addresses measures to be applied by DESFA for the implementation of the Compliance programme, approved by RAE (Decision No 184/25.04.2013).

Dr. Amoiralis was appointed by virtue of Decision No. 9/20.05.2014 of DESFA's Supervisory Board of DESFA, which was subsequently authorised by virtue of RAE Decision No. 280/22.05.2014.

This annual report was drafted as part of Compliance Officer's statutory powers in relation to the Compliance Programme, as same was drafted by DESFA under its capacity as ITO. It is noted that the Compliance Programme includes the LNG facility on Revithousa island, which is integrated in the NNGS [pursuant to Article 67(1)(b) of Law 4001/2011] and is a fundamental infrastructure for the country's secure supply and the integration of new Users in the NNGS, who must enjoy equal access to the NNGS.

This 2016 – 2017 annual report describes the basic measures to be applied in implementation of the Compliance Programme over period 01.03.2016 - 28.02.2017, with a view to ensuring the non-discriminatory treatment of NNGS Users and natural gas market operators, DESFA's independence, the confidentiality of all information managed by DESFA and the transparency of all DESFA procedures.

According to DESFA's organisational structure, the above actions shall be carried out with the assistance of the Department of Security, Management Systems and Compliance Programme, which is responsible for coordinating all independent inspections/controls relating to implementation of the Compliance Programme and is subject to independent supervision by the Compliance Officer.

### 2 The Company

The Hellenic Gas Transmission System Operator SA is a company limited by shares (Société Anonyme) and a wholly-owned subsidiary of Public Gas Corporation SA ("DEPA SA"), which is in turn owned by 65% by the Hellenic Republic Asset Development Fund S.A. ("TAIPED") and by 35% by Hellenic Petroleum SA. ("HP SA").

DESFA is the owner and operator of the NNGS, which comprises the Hellenic Gas Transmission System and the Liquefied Natural Gas station on Revithousa island. Under such capacity, DESFA is exclusively responsible for NNGS functioning, maintenance, development and exploitation, and operates as per the ITO standards (as same are laid down in Directive 2009/73 and in Law 4001/2011, as in force). It is noted that DESFA currently awaits the decisions of its shareholders as regards the course of its privatisation.

### 3 Compliance Programme – Methodology of Controls

DESFA, as an Independent Gas Transmission Operator, establishes and implements a Compliance Programme, as per the provisions of Law 4001/2011, as in force, laying down the measures to be adopted by the Company to ensure its independence, prevent any form of discriminatory treatment and apply proper procedures to monitor the management's and staff's compliance with the Compliance Programme.

More specifically, the Compliance Programme lays down the checkpoints that need to be reviewed in terms of compliance with the basic principles governing Company's operations, as per the applicable methodology:

- Sample controls (whereby individual cases are examined, where possible on the basis of complaints, notifications mainly to RAE, the importance of each checkpoint for Company's operations, any implementation difficulties etc.);
- Thorough controls on all cases relating to each checkpoint;
- Meetings and supplementary interviews with the responsible staff, primarily where departures are identified from the requirements of the Compliance Programme, which need to be further explained.

Hence, the regular annual <sup>3</sup> inspections/controls regarding implementation of the Compliance Programme started in early November 2016 and were completed in late February 2017, in accordance with the principles of international auditing standards, with a view to assessing DESFA's compliance, by means of systematic, independent and evidentiary observation and documentation procedures (records, statements or other information collected on the basis of the control criteria). In addition, the above mentioned audits were conducted by the Compliance Officer, taking into consideration standards' principles (International Standard ISO 19011) and best practices, as follows:

- Ethical conduct: *The foundation of professionalism*  
(Trust, integrity, confidentiality, and discretion are essential to auditing)
- Fair presentation: *The obligation to report truthfully and accurately*  
(Audit findings, audit conclusions and audit reports reflect truthfully and accurately the audit activities)
- Due professional care: *The application of diligence and judgement in auditing*  
(Auditors exercise care in accordance with the importance of the task they perform and the confidence placed in them by audit clients and other interested parties.)
- Independence: *The basis for the impartiality of the audit and objectivity of the audit conclusions,*
- Evidence-based approach: *The rational method for reaching reliable and reproducible audit conclusions in a systematic audit process.*

The inspections/controls have taken place at the offices of the inspected persons and comprised the following phases:

1. Opening meeting;
2. On-site inspection;
3. Interview;

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<sup>3</sup> In addition to scheduled controls, non-scheduled controls were conducted throughout the year, whenever that was considered essential.



4. Sample controls;
5. Documentation;
6. Final meeting and audit completion.

The four pillars of ensuring basic principles of operation, based on which audits were designed and implemented, according to the acronym **IDEA**, were the following:

- **Independence of DESFA from the VIU and/or any undertakings affiliated with the VIU.**  
This refers to DESFA's obligation to separate its own corporate identity and scope of Services from that of the VIU and/or its affiliates.
- **Data confidentiality of commercially sensitive information:**  
Determination, classification and safeguarding of the confidentiality of commercially sensitive information, including those concerning the NNGS users and those concerning DESFA's Operations.
- **Equal treatment of Users:**  
This relates to DESFA's obligation to treat all Users equally and avoid any discriminatory or biased practices and any practices which distort competition.
- **Adoption of transparent procedures:**  
This principle consists in the supply of equal access to information relating to DESFA's Operations and procedures. Such procedures must be determined by DESFA with impartiality and objectivity, to prevent distortions or biased practices.

## 4 Basic Principles governing DESFA Operations

As a founding member of the European Network of Transmission System Operators for Gas (ENTSOG) and ITO of the NNGS, DESFA plays a decisive role in the natural gas market, ensuring the operation of an integrated natural gas market in the European Union as per the EU's and the national regulatory requirements. As an essential prerequisite, DESFA needs to be fully independent from the VIU or its affiliates, and carry out its duties with impartiality and transparency, by applying strict rules to ensure free competition.

These are important regulatory requirements, which must form a basic priority for DESFA. To achieve compliance with the above requirements, it is imperative that each of DESFA's organisational units seeks and ensures compliance with all four basic operational principles set out above ("IDEA" principles).

### 4.1 Equal Treatment of Users

#### 4.1.1 DESFA Information Systems

DESFA has taken a series of actions to ensure transparency and equal access of Users to all information which DESFA is liable to publicise on its official corporate website, as per the regulatory framework governing its operations (checkpoint 4.1 of the Compliance Programme). Moreover, specific terms and limitations were introduced to the functioning of the Integrated Information System (checkpoint 4.2 of the Compliance Programme).

As regards checkpoint 4.1, the Operator has taken all steps necessary to ensure due implementation thereof, through publication of specific information on its official website, providing a description of DESFA's distinct identity as well as of the distinct identity of the Services which DESFA offers with transparency, impartiality and without discrimination

towards all NNGS users. It is noted that on 17/02/2016 DESFA upgraded its website ([www.desfa.gr](http://www.desfa.gr)), to ensure better presentation and management of the relevant information and strict compliance with the security standards applicable to information systems. Following an inspection, DESFA Management is in the process of rendering a decision nominating a DESFA Website Manager and the officers responsible for each of Company's thematic sections, who will be responsible for updating the respective information on Company's website (checkpoint 4.1.3). At the same time, specific recommendations were made to the relevant organisational unit with regard to certain problems which were identified in relation to registration of new users on the website, recommending the delivery of instant notices, by email, on matters of regulatory nature. Moreover, the need for DESFA website to maintain historical data for a minimum period of five years was also pointed out. The Compliance Officer advised the competent department to submit a query either to the Legal Services Department or to RAE, in relation to the time period for which historical data should be maintained. In light of the aforementioned issues, the competent organisational unit informed the Compliance Officer that a new upgrade of the website was under way, whose time schedule was about to be determined. As part of Compliance Officer's powers and duties, instructions and ideas were given, in cooperation with the Company, for optimum presentation of the regulatory framework and all relevant compliance matters on DESFA's website, which have been thoroughly implemented and some of them are already in use. It is noted that on 12.09.2016 the Operator terminated its older website, which was available in parallel to the new website, considering that all important information has been transferred to the latter, despite Compliance Officer's instructions (given by email) to the opposite, which relied on the fact that the new website presents certain malfunctions compared to the old one.

As regards checkpoint 4.2, according to the provisions of Law 4001/2011, Regulation (EC) no. 715/2009 [Annex I, paragraph 1(1)] and the 2nd Amendment to the NNGS Management Code, DESFA is liable to develop information systems and electronic communication system which ensure sufficient supply of data to network users and simplify certain transactions, such as reservation requests, capacity agreements and capacity royalties transfer among the network users. DESFA offers Users access to the pilot Electronic Information System (EIS) and to the Electronic Transactions System (ETS), through its official website.

In order to handle effectively the substantial increase in transactions between DESFA and HGNS Users, and the ever-increasing complexity of such transactions, DESFA has decided to implement an Integrated Information System to manage regulated services through an open tendering procedure. Hence, the Company has proclaimed an Open International Tender (Tender No. 368/13) to implement the NNGS Integrated Information System, which, however, was cancelled by virtue of Decision No. 284/03/05.11.2015 of its Board of Directors, on grounds of substantial alteration of the scope of the agreement<sup>4</sup>, to an extent that rendered impossible the completion of the tendering procedure and the award of the contract. According to the aforementioned Decision, a new tender shall be proclaimed as soon as the adjustment of the institutional framework is completed, insofar as it allows for drafting of new technical specifications. Having due regard to the above, in order to perform

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<sup>4</sup> The tender procedure was carried out as per the procedures and provisions applicable under the current regulatory framework, which, however, are expected to undergo substantial changes over the upcoming period, for purposes of efficient implementation of various EU Regulations (984/2013, 703/2015, 312/2014).

its obligations (in light also of the upcoming 3rd Amendment to the NNGS Management Code), DESFA has developed a transitional information system for regulated natural gas services, which will gradually replace the Pilot Information System. Following an inspection it was established that, during 2016, the aforementioned actions were carried out with the assistance of a pilot information system (EIS and ETS) developed by DESFA's competent departments, while no system malfunction was identified and no complaints were made by NNGS Users.

It is worth noting that on September 26th (Monday) and 27th (Tuesday) 2016, DESFA organised a conference to inform the undertakings engaging in the natural gas market (Users) on NNGS access-related matters. There, DESFA presented its proposals for a review of the framework governing NNGS access and the LNG facility on Revithoussa. At the same time, DESFA presented the information systems relating to the Gas Transmission System and the LNG System, which will be used by Users to implement the procedures established under the regulatory framework currently under review.

#### 4.1.2 NNGS Development: Development Study, , List of Small Scale LNG Projects, Third-Party Access to the NNGS.

In respect of the checkpoints that relate to equal treatment of NNGS Users, DESFA's authorised Compliance Programme lays down procedures for the preparation of a Forecast Demand Allocation Study, a Development Study (checkpoint 5.1), a Development Plan (checkpoint 5.2) and a List of Small Scale LNG Projects (checkpoint 5.3), as well as Development Programme implementation monitoring / emergency review procedures (checkpoint 5.4), User-NNGS Connection procedures, verification procedures as to the completeness of future capacity reservation requests (checkpoint 5.5), evaluation procedures of Future Capacity Reservation requests for Scheduled Projects (checkpoint 5.6) and evaluation procedures for Non-Scheduled Projects Future Capacity Reservation requests (checkpoint 5.7).

Following a control procedure, the following were established:

1. The 2017-2026 Development Study was authorised by virtue of Decision No. 299/08/13.05.2016 of the Board of Directors and promptly posted on DESFA's official website, as per the requirements of the Compliance Programme (checkpoint 5.1).
2. The Ten-Year Network Development Plan 2016-2025 was authorised by virtue of Decision No. 299/07/13.05.2016 of the Board of Directors, i.e. after expiry of the time limit indicatively prescribed in the Compliance Programme, due to consecutive delays in the implementation of the previous Development Plans. The said Plan was then submitted to public consultation by the competent organisational unit until June 20 2016, through DESFA's website, as per the requirements of the NNGS Management Code and the Compliance Programme (checkpoint 5.2). The 2016-2025 Network Development Plan was authorised by virtue of RAE Decision No. 64/2017 (Government Gazette Series B, Issue No. 436/15.02.2017). Due to the above, the 2017-2026 NNGS Development Plan has not yet been submitted to RAE (indicative submission deadline as per the Compliance Programme: late September 2016).

It is noted that the Compliance Officer has requested the competent unit to provide information on the implementation of all projects integrated in the authorised 2016-2025 Development Plan, pursuant to Section 93 of the NNGS Management Code (tables providing comparative information on the budgetary implementation and time

schedule of each project included in the Draft and in the current Development Plan). The competent DESFA unit stated that all projects are being carried out as per the requirements of the current Development Plan. However, the following four projects are currently being updated (their time schedules and budgets are being revised): (a) The Pilot Truck Loading Terminal (paragraph 2.1.2.2 of the 2016-2025 Development Plan); (b) the LNG waste gas compression terminal (paragraph 2.1.2.3 of the 2016-2025 Development Plan); (c) the Integrated NG Information System (paragraph 2.2.1.13 of the 2016-2025 Development Plan); and (d) the Control Centres' SCADA (Supervisory Control And Data Acquisition) system graphic interface upgrade (paragraph 2.2.1.14 of the 2016-2025 Development Plan).

3. A List of of Small Scale LNG Projects was prepared and revised as per the procedure prescribed in checkpoint 5.3 of the Compliance Programme.
4. Having due regard to the authorised 2015-2024 Development Plan, in July 2016 DESFA forwarded to RAE by means of Document Ref. 096458/27.07.2016 an implementation report, together with the 2016-2025 Draft Development Plan (checkpoint 5.4). It emerges that the prescribed time limit was not complied with.
5. On 23.12.15 ELVAL SA (based on Oinofyta, Viotia, Greece) filed a Future Capacity Reservation Request with DESFA. DESFA followed the procedure applicable under the NNGS Management Code and the Compliance Programme (checkpoints 5.5 and 5.7). More specifically, on 02.02.2016 ELVAL SA was informed that their request could only be granted if a project was to be implemented, which fell under the category of Non-Scheduled Projects (fax message 90996/02.02.2016). On 03.02.2016 their Request was posted in summary on DESFA's website, pursuant to Section 95B(1) of the NNGS Management Code, and viewers were invited to submit their comments or third-party Requests no later than 04.04.2016. No such comments or Requests for Future Reservation of Capacity of Third Parties were submitted after ELVAL's Request was posted as above. On 05.07.2016, ELVAL was informed by DESFA that the site they had designated for the installation of a metering station was found to be inappropriate in terms of safety. Therefore, they were requested to designate an alternative location. To this date, ELVAL has not complied with that request.
6. As regards checkpoint 5.6, no actions were required to be performed during year 2016.

#### 4.1.3 Gas Transmission Services

Terms and procedures are laid down regarding the supply of Gas Transmission Services, to prevent any discriminatory treatment on the part of DESFA. It is noted that thorough and detailed Gas Transmission procedures are laid down in the NNGS Management Code, comprehensive compliance with which is the subject of controls. Chapter 8 of the authorised Compliance Programme provides that controls may be conducted at the request of any NNGTS User. As per the checkpoints set out in Chapter 8, the following were established through a control procedure:

1. The reservation of transmission capacity (checkpoint 8.3.1) on the NNGS between Users and DESFA is carried out in accordance with the provisions of the Management Code (Section 8). The control procedure revealed that all capacity reservation requests (four thousand, four hundred and ninety-seven (4,497) in total) were addressed within the time limits prescribed under the NNGS Management Code. Moreover, Compliance Officer's sample control procedure revealed that all NNGS Users enjoyed equal treatment as regards the processing of their requests.

2. As regards the variation in the Reserved Transmission Capacity for Delivery/Acceptance (checkpoint 8.3.2), the release of reserved Transmission Capacity (checkpoint 8.3.3), the Assignment of Transmission Capacity (checkpoint 8.3.4) and the Resale of Natural Gas (checkpoint 8.3.5), and the Annual Maintenance Schedule for year 2017 (checkpoint 8.3.13), it was established that in 2016 DESFA complied with the applicable institutional framework.
3. In relation to checkpoint 8.3.6, the competent unit has stated that in 2016 five thousand eighty-three (5083) Initial and Final NG Allocation requests were addressed, in respect of which it was established that DESFA has acted in line with the applicable institutional framework.
4. In relation to checkpoint 8.3.7 (Weekly Statements), no actions were required from DESFA during year 2016.
5. In 2016, DESFA issued four thousand, nine hundred and ninety-nine (4999) Authorisation Acts and one hundred and forty (140) Non-Authorisation Acts in respect of Daily Statements (checkpoint 8.3.8), and it was established that all relevant requests had been handled as per the requirements of Section 27 of the NNGS Management Code.
6. In Year 2016, no Delivery/Acceptance of Off-Spec Gas was noted (checkpoint 8.3.9), as these terms are specified in Annex I to the NNGS Management Code.
7. There were certain Violations of the Minimum Entry Pressure threshold (checkpoint 8.3.10) at the NNGTS Entry Points "Sidirokastro" and "Kipoi", which were notified to the Transmission Users involved, as per the applicable regulations.
8. In relation to checkpoint 8.3.11, from 19.12.2016 through 31.12.2016 there was one Emergency Level Crisis incident, in respect of which DESFA has acted in compliance with the provisions of Chapter 10 of the NNGS Management Code and the Emergency Plan, as regards the announcement of the emergency's starting and ending point, the notification of the incident to RAE and the Parties Involved.
9. In year 2015, thirty-two (32) Days of Limited NG Transmission (checkpoint 8.3.12) were recorded in total, which were posted on DESFA's website and handled as per the requirements of the NNGS Management Code.
10. In relation to checkpoint 8.3.14 (Emergency Maintenance), Emergency Maintenance was carried out on the NNGS three (3) times in year 2016. Acting in compliance with Section 99 of the NNGS Management Code, DESFA notified the Users by fax message about the nature, extent, and estimated duration of those operations, within a reasonable time period.
11. It was confirmed that the Annual Calibration Programme for the Metering Equipment at the NNGTS Stations (M/R<sup>5</sup> stations and R<sup>6</sup> stations) for year 2017 was drafted and publicised as per the applicable procedure (checkpoint 8.3.15).
12. The NNGS Operation Report for year 2016 was drafted and posted on DESFA's website on 14.03.2017, i.e. after expiry of the indicative time period (28.02.2017) prescribed in the Compliance programme (checkpoint 8.3.17).
13. In Year 2016, the Calibration of the Metering Equipment at the NNGTS Metering Stations was carried out with minor deviations from the Annual Calibration Schedule for year 2016 (checkpoint 8.3.16), as same was notified to the Transmission Users by means of a post on DESFA's website in December 2015. In all situations where the

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<sup>5</sup> M/R: Metering/Regulating Station

<sup>6</sup> R: Regulating Station

Metering Equipment at the NNGTS Metering Stations underwent calibration, the Transmission Users who had reserved Transmission capacity at an Entry or Exit Point of the NNGTS were informed in writing by DESFA of the exact date of the calibration works at the respective Metering Station, so as to be able to attend the calibration procedure through their representatives. Moreover, in all situations where the Metering Equipment at the NNGTS Metering Stations underwent calibration, the relevant inspection/calibration reports were delivered by DESFA to the Transmission Users, in the form of informative letters.

14. It was confirmed that checkpoint 8.3.18 was duly complied with, based on the Metering Regulation and the NNGS Management Code.

It is noted that, in relation to the above, the Units responsible for verifying compliance with the requirements (checkpoints) of Chapter 8 have stated that, to this date, they have not received any complaints in relation to those checkpoints.

#### 4.1.4 Use of LNG Facility

Terms and procedures are laid down regarding the use of the LNG facilities, to prevent any discriminatory treatment on the part of DESFA. It is noted that thorough and detailed LNG facility use procedures are laid down in the NNGS Management Code, comprehensive compliance with which is the subject of controls. Chapter 9 of the authorised Compliance Programme provides that controls may be conducted at the request of any NNGTS User. As per the checkpoints set out in Chapter 9, the following were established through a control procedure:

1. As regards Gasification Capacity Reservation (checkpoint 9.3.1), the Availability of Additional LNG Storage Space (checkpoint 9.3.4) and the LNG offloading Schedule (checkpoint 9.3.5), it was established that in 2016 DESFA complied with the applicable institutional framework.
2. In relation to checkpoint 9.3.2 (Assignment of Gasification Capacity) and checkpoint 9.3.3 (Release of Reserved Gasification Capacity), no actions were required from DESFA during year 2016.
3. In 2016 there were Non-Scheduled LNG Offloading operations (checkpoint 9.3.6), while various LNG User agreements relating to LNG Transactions were submitted to and authorised by DESFA (checkpoint 9.3.7), in respect of which it was established that DESFA has complied with the procedures applicable under the NNGS Management Code.
4. As regards the LNG Loss Coefficient study for year 2017 (checkpoint 9.3.8), it was established that DESFA has complied with the NNGS Management Code, by submitting to RAE the LNG Loss Coefficient study for year 2017 (date sent: 21.11.2016) (departing slightly from the submission deadline on 15.11.2016 provided for in the Compliance Programme) (date received by RAE: 25.11.2016). RAE's decision is still pending as at this date.

It is noted that, in relation to the above, the Units responsible for verifying compliance with the requirements (checkpoints) of Chapter 9 have stated that, to this date, they have not received any complaints in relation to those checkpoints.

#### 4.1.5 Non-Regulated Services:

As part of the provision of Non-Regulated Services (checkpoint 10.1 of the Compliance Programme), DESFA can enter into agreements for the provision of non-regulated services

(as same are thoroughly listed on DESFA's official website) with any customers wishing to obtain such services.

Following a control procedure, it was established that these services are offered by DESFA under the same terms and conditions, to all System Users, on a non-discriminatory basis, by virtue of model agreements. These agreements, the methodology applied to calculate the financial consideration payable for the services and the specific non-regulated services offered are posted on DESFA's official website, which is freely accessible by all interested parties. More specifically, according to the provisions of Article 63(B)(1) of Law 4001/2011, as in force, DESFA has entered relevant agreements with the VIU and some of its affiliates. The relevant agreements were drafted in the form of model agreements and were submitted to RAE. It is noted that two agreements entered between DESFA and the VIU and currently in effect will be redrafted on the basis of model agreements, which, however, have not been authorised to this date (samples have been submitted to RAE for authorisation).

## 4.2 Adoption of transparent procedures - Procedural Transparency

### 4.2.1 Financial Transparency

Terms and procedures are in place to ensure a distinct allocation of the calculation of (i) the Regulated Asset Base and Asset Depreciations of each Basic Operation (checkpoint 6.7); (ii) the operating cost of non-regulated services (checkpoint 6.8) and (iii) DESFA's regulated operating expenses (checkpoint 6.9).

Following a control procedure in relation to the above checkpoints, it was established that DESFA has taken all steps necessary to ensure financial transparency and a distinct allocation of tariffs/services. Moreover, particular invoices were inspected (by means of random checks) and compliance with the above procedures was established. It is noted that by RAE letter Ref. O-62313/13.10.2015 "implementing guidelines relating to Accounting Separation Allocation Rules and Principles", an amendment is required to the drafting and monitoring of Regulatory Accounts. According to email message dated 17.02.2017 sent by the Chief Financial Executive, the aforementioned guideline shall be applied by DESFA as of 01.03.2017, as regards in particular the new cost centres and profit centres.

### 4.2.2 Procedures relating to natural gas purchases by DESFA

Terms and procedures are laid down for preparation of an annual Load Balancing Plan, including a recommendation for reservation of capacity for Load Balancing purposes (checkpoint 7.1); for procurement of Balancing Gas and determination of a daily balancing gas price and a NNGS usage price for load balancing purposes (checkpoint 7.2); for preparation of an Operating Gas Counter-balancing study (checkpoint 7.3); for procurement of Operational Gas and for recommendation of an Operational Gas Counter-Balancing Unit Price (checkpoint 7.4).

Following a control procedure, the following were established:

1. The Annual Load Balancing Plan for year 2017 (checkpoint 7.1), and DESFA's recommendation as to the part of the NNGS capacity to be reserved by DESFA for Load Balancing purposes during the same year, were submitted to RAE on 27.04.2016 (Ref.: DESFA 093781/27.04.2016), as per the requirements of the NNGS Management Code and the Compliance Programme. By virtue of Decision Ref. 282/04.08.2016 RAE authorised the above. RAE's decision was notified to DESFA,

following which the latter posted on its website the authorised Annual Load Balancing Plan for year 2017.

2. DESFA forwarded to RAE the Operational Gas Counter-balancing Study for year 2017, as per the requirements of the NNGS Management Code (checkpoint 7.3). The said study was authorised by RAE by virtue of Decision Ref. 507/25.11.2016 (Government Gazette Series B, Issue No. 4025 /15.12.2016) and was instantly posted on DESFA's official website.
3. The procedure relating to conclusion of balancing gas procurement agreements (checkpoint 7.2) and operational gas procurement agreements (checkpoint 7.4) for year 2017 has not been completed to this date. It appears that the applicable time limits were not complied with. More specifically, by virtue of Decisions No. 302/03/02.06.2016 and 302/04/02.06.2016 DESFA's Board of Directors authorised an International Tender for the award of a LNG Procurement Contract for NNGTS Load Balancing purposes for period 01.01.2017 (08:00 a.m.) – 01.01.2018 (08:00 a.m.) as well as an International Tender for the award of an Operational Gas Procurement Contract for period 01.01.2017 (08:00 a.m.) – 01.01.2018 (08:00 a.m.) respectively, as per the requirements of the NNGS Management Code and the Compliance Programme.
4. Based on the aforementioned Decisions, DESFA drafted the tender documents for both tendering procedures. Prior to publication of the relevant Call for Tenders as per the applicable laws, Law 4412/2016 on "*Public Contracts, Works, Procurements and Services (adaptation to Directives 2014/24/EE and 2014/25/EE)*" was published (GG Series A, No. 147/08.08.2016), introducing amendments to DESFA's tendering procedures and repealing DESFA's Procurements Regulation, as same applied at the time. Based on the representations of DESFA's competent departments, this caused delays to all DESFA tender procedures, including the two tender procedures mentioned above, and rendered imperative a redrafting of the Call for Tenders and tender documents, for reasons of consistency with the newly-enacted regulations. As a result of the above, both tender procedures were delayed and - once all publication formalities are met - are expected to be completed by late July 2017<sup>7</sup>. It is noted that, in order to ensure the safe and unhindered operation of the NNGTS during the first quarter of 2016 (i.e. until 01.04.2017, 08:00 a.m.), in light of the aforementioned situations, the relevant balancing and operational gas procurement agreements have been extended for three months, as per their terms. In respect of period 01.04.2017 (08:00 a.m.) - 01.08.2017 (08:00 a.m.)(estimated tender completion date), DESFA considers imperative the application of Article 91(1) of Law 4001/2011, according to which DESFA may procure LNG from DEPA, without a tender procedure, for NNGS Load Balancing purposes, as well as the applicability of paragraph 1(f) of Annex C2 of the DESFA Procurements Award and Execution Regulation, according to which, DESFA may procure natural gas for NNGS Operational Gas Counter-balancing purposes through a negotiation procedure, without publishing a Call for Tenders. In this context, the aforementioned provisions enter into effect, provided that all necessary authorisations are granted by RAE, as per the applicable regulations and the requirements of the Compliance Programme.

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<sup>7</sup> DESFA will estimate the relevant time period taking into account the non-flexible publication periods, the appeal deadlines set to renderers at various phases of the procedure and the fact that the pre-award procedure is subject to review by the Court of Audit, due to the budget involved.



5. Having regard to the foregoing, and also to Section 46 of the NNGS Management Code and the requirements of the Compliance Programme (checkpoints 7.1 and 7.3), DESFA introduced amendments to the authorised Annual Load Balancing Plan for year 2017 [notified to RAE in writing on 09.02.2017 (DESFA Ref.: 102004/09.02.2017)] as well as to the authorised Operational Gas Counter-balancing Study for year 2017 [notified to RAE in writing on 13.02.2017 (DESFA Ref. 102107/13.02.2017)]. As at this date, RAE's Decision on the matter is still pending. If the aforementioned amendments are eventually authorised, DESFA shall be liable to post them on its official website.

### 4.3 Data confidentiality of commercially sensitive information

#### 4.3.1 Training Procedures

According to paragraph 3.1 of the Compliance Programme, training procedures are in place, intended to keep the Company's staff informed on the applicable regulatory requirements and the regulatory framework governing DESFA's operations, to ensure the confidentiality of commercially sensitive information.

Following a control procedure it was established that the competent organisational unit has organised and implemented a series of training actions, in the form of distance learning procedures, to sensitise and inform the Company's staff and the staff of any undertakings providing DESFA with administrative, financial or technical support services (checkpoint 3.1) on the aforementioned matters. Such actions included, among others, the mandatory completion of a key-point questionnaire. The competent organisational unit has drafted an annual report for year 2016, as per the requirements of the Compliance Programme, including a thorough assessment of the range of information offered to the staff on the above matters.

#### 4.3.2 Information Technology (IT) Systems

DESFA ensures the security of its information systems, to ensure the confidentiality, integrity and availability of the information managed through those systems, using state-of-the-art technologies and applying optimum international practices. DESFA's information systems and intranet network is effectively protected against Internet threats through special devices.

Following a control procedure it was established that the competent organisational unit applies advanced methodologies to identify and handle effectively any vulnerabilities of its information systems, with a view to ensuring efficient system protection and security. To ensure the efficient monitoring of the relevant procedures, DESFA uses a specialised software interface which enables its staff to monitor unfailingly and evaluate efficiently the security of its information systems. However, the establishment of an Information System Security Framework is considered imperative.

At the same time, according to Law 4001/2011, as in force, DESFA is liable to safeguard the confidentiality of any commercially sensitive information that comes its possession and to designate and classify such information accordingly. In this context, on 01.06.2016 the Compliance Officer suggested (by means of an email message) that a DESFA Information System Compliance Guide be drafted, for the purpose of ensuring effective compliance with the above. On 12.09.2016 the competent organisational unit submitted the Guide to the Compliance Officer.

Moreover, certain vulnerabilities were identified in DESFA's information systems, following an inspection conducted by notice to the Compliance Officer (12.07.2016) for evaluation of DESFA's information security services provider. The competent unit took promptly all actions necessary to secure DESFA's systems more efficiently. DESFA is currently planning further actions in relation to the above matter, in order to adapt efficiently to the ever-changing market conditions.

## 4.4 Independence of the Company

### 4.4.1 DESFA certification as Independent Transmission Operator

DESFA SA was certified as a natural gas ITO by virtue of RAE Decision No. 523/2014 (GG Series B, No. 2572/26.9.2014). In particular, having due regard to the provisions of Law 4001/2011 (GG 179/A/22-8-2011) and the relevant Opinion of the European Commission (C 5483 final - "*Commission Opinion of 28.7.2014 pursuant to Article 3(1) of Regulation (EC) No 715/2009 and Article 10(6) and 11(6) of Directive 2009/73/ EC – Greece – Certification of DESFA*"), DESFA was certified as natural gas ITO by virtue of RAE Decision No. 523/2014 (GG 2572/B/26.9.2014).

Subject to these conditions, DESFA was granted certification as to the adequacy of its resources (infrastructures, human resources and financial means), the performance of its duties relating to transmission of natural gas, and its independence from the VIU and its affiliates in the performance of those duties.

### 4.4.2 Independent Bodies and Management Executives

The Company is managed by a Board of Directors which currently comprises eight members, all being appointed and revoked by decision of the Supervisory Board, subject to RAE authorisation, as per the provisions of Law 4001/2011, as in force, by derogation from the provisions of Law 2190/1920. The Managing Director is the Company's top-ranking executive officer. Furthermore, according to Law 4001/2011, as in force, by derogation from the provisions of Law 2190/1920, a Supervisory Board was established under authorisation from RAE, which currently comprises seven members, to assume the powers and responsibilities laid down in DESFA's Articles of Association and in the relevant provisions of Law 4001/2011, as in force. Moreover, according to the relevant provisions of Law 4001/2011, a Compliance Officer was appointed by decision of the Supervisory Board, subject to RAE authorisation, as an independent institutional body reporting directly to RAE. It is noted that the members of the Board of Directors, the members of the Supervisory Board and the Compliance Officer have been appointed in accordance with the requirements of the Law and DESFA's Articles of Association.

#### 4.4.2.1 Supervisory Board

As mentioned above, the Supervisory Board still comprises seven members as at the date this report is drafted, whereas from 01.03.2016 through 28.02.2017 two members of the Supervisory Board, appointed by the Hellenic Republic, were dismissed and replaced by two (2) new members for their remaining tenure (Government Gazette (Section of Government Employees and Bodies, Issue No. 189/11.04.2016).

Following a control procedure (checkpoint 1.1) it was established that all relevant supporting documents and solemn declarations required under the law (Article 63E of Law 4001/2011) (solemn declarations by at least three members, stating in writing that they are not subject to the applicable statutory restrictions which are intended to ensure the independence of

members of the Supervisory Board) are included in the competent organisational unit's records.

#### 4.4.2.2 *Board of Directors*

As already mentioned, DESFA's Board of Directors currently comprises eight members and no changes have been introduced in this regard to this date. More specifically, from 01.03.2016 through 29.02.2017 the following took place: On 11.04.2016, during their 22nd Session, the Supervisory Board decided to dismiss the Director of the BoD and two (2) members of the BoD. During the same session, the Supervisory Board appointed three (3) new members and an executive Director of the BoD. On 20.04.2016, during their 23rd Session, the Supervisory Board appointed a new member of the BoD to replace another one who had resigned. On 19.9.2016 DESFA's CEO resigned and, during its 28th Session, the Supervisory Board assigned the powers of CEO duties to the executive Chairman of the BoD.

Following a control procedure (checkpoint 1.2) it was established that all relevant supporting documents and solemn declarations required under the law (Article 63E of Law 4001/2011) (solemn declarations by all members, stating in writing that they are not subject to the applicable statutory restrictions which are intended to ensure the independence of the members of the Board of Directors) are included in the competent organisational unit's records.

#### 4.4.2.3 *Meetings of Management Bodies*

From March 1st, 2016 until February 28th, 2017, the following Meetings were held by DESFA's management bodies:

- One (1) Ordinary General Meeting of Shareholders;
- Thirteen (13) Meetings of the Supervisory Board;
- Thirty-three (33) Meetings of the Board of Directors.

The Compliance Officer was duly notified to attend all the aforementioned meetings, as required by the Law and DESFA's Articles of Association, and attended forty-three (43) out of a total of forty-seven (47) meetings.

#### 4.4.2.4 *Compliance Officer*

By virtue of Minutes dated 20.05.2014 of DESFA's Supervisory Board, Dr. Eleftherios Amoiralis, Production and Management Engineer, was appointed as DESFA's Compliance Officer. His appointment was authorised by virtue of RAE Decision No. 280/22.05.2014.

It is noted that the Compliance Officer has submitted to DESFA's competent organisational unit all solemn declarations required under the law (Article 63H of Law 4001/2011), stating in writing that he is not subject to the applicable statutory restrictions which are intended to ensure the Compliance Officer's independence.

#### 4.4.2.5 *Management Executives*

Any management executives/members of DESFA's staff exercising the management of NNGS or making the decisions required for NNGS's daily operation, and any persons reporting directly to these persons on any matters relating to the operation, maintenance or development of the NNGS and belong to DESFA, are liable to ensure their independence in the performance of their duties as representatives and managers of DESFA. According to paragraph 1.3.3 of the authorised Compliance Programme, such management executives / members of DESFA's staff and any persons reporting directly to them, are those holding the

post of Manager, namely the post of Operations Manager, Coordination Manager or Manager according to the Organizarion Chart as same is currently in effect.

Following a control procedure (checkpoint 1.3) it was established that certain supporting documents, more specifically certain solemn declarations required under the law (Article 63E of Law 4001/2011), were missing from the record of the competent organisational unit. Following a recommendation, the Compliance Officer suggested the drafting of model solemn declarations (Art. 8 of Law 1599) with the contents required under Articles 63E and 63D of Law 4001/2011, as applicable, as in force. The competent department in cooperation with the Legal Department have already began this procedure in order to gather declarations from all persons mentioned above, stating in writing that they are not subject to the statutory restrictions which ensure their independence. This process is expected to be completed by 31.03.2017.

#### 4.4.3 Financial Independence

Terms and procedures are in place regarding preparation and authorisation of DESFA's Business Plan (checkpoint 6.1), Action Plan and Budget (checkpoint 6.2); the appointment of certified auditors and controllers to issue a tax compliance report (checkpoint 6.3); the authorisation of DESFA's annual financial statements, the dividends payable to the Shareholders, the Directors' and Supervisory Board members' fees and the Directors' management report (checkpoint 6.4); the authorisation of the loan agreements concluded by DESFA (checkpoint 6.5) and any share capital increase recommendations (checkpoint 6.6).

Following a control procedure, the following were established:

1. In relation to checkpoint 6.1, in 2014 DESFA postponed the preparation of a Business plan for period 2015-2024. Accordingly, the preparation of a Business Plan for period 2016-2025 and period 2017-2026 was also postponed, by derogation from the reporting date indicatively prescribed in the Compliance Programme. This was because the Transmission and LNG Charging Tariffs for period 2016-2035, based on which DESFA's regulated revenue is determined, were not yet finalised. As soon as the NNGS Basic Operations Pricing Regulation was authorised and published (RAE Decision 339/2016, GG Series B, Issue No. 3181/4.10.2016, as amended by RAE Decision 349/2016, GG Series B, Issue No. 3235/7.10.2016), and RAE Decision No. 352/8.10.2016 "Authorising the National Gas Transmission System Use Tariffs" was issued, the competent DESFA departments drafted a Business Plan for period 2017-2026, which was then authorised by the Board of Directors by virtue of Decision No. 316/04/25.10.2016. As per the requirements of the Compliance Programme, the members of the Supervisory Board were informed by the Chairman regarding the Business Plan, at the 30th Session of the Supervisory Board.
2. In relation to checkpoint 6.2, it was established that DESFA's Action Plan for year 2017 was authorised by virtue of Decision No. 323/04/02.02.2017, by derogation from the Action Plan authorisation deadline indicatively prescribed in the Compliance Programme (31.12.2016).
3. As regards DESFA's Budget for year 2017 (checkpoint 6.2), the budget has not been thoroughly prepared to this date, by derogation from the deadline indicatively prescribed in the Compliance Programme (31.12.2016). Following a control procedure it was established that all necessary actions have been performed as per the Budget Preparation Procedure and within the time limitations of the Compliance

Programme, e.g. (a) Maintenance/update of the Budget Preparation system structures (BPC system); (b) Calculation of the 2017 Budget unit cost prices, and (c) Timely integration in the reporting system of the related information for the eight-month period of the previous year, which allowed for a Service Note to be sent out dictating the commencement of the 2017 Budget preparation, with a view to drafting a preliminary draft budget by 30.11.2016. Despite the above, a series of parameters, such as (a) Changes to the organisational structure which in turn required changes to the Budget Preparation and Monitoring System (BPC) and re-allocation of budget expenses items, and (b) Reassessment of the figures relating to the budgeted revenues for year 2017 (due to contingencies that caused an increase in the demand for natural gas), forced DESFA to reassess its budget for year 2017.

4. In relation to checkpoint 6.3, it was established that the Agreement entered between DESFA and the Certified Auditors includes terms which ensure the contractor's independence from the VIU and its affiliates and the confidentiality of all information; however, no penalty clause was identified imposing a penalty of twice the contract price in case of breach.
5. In relation to checkpoint 6.4, it was established that, by virtue of Decision No. 324/03/09.02.2017 of DESFA's Board of Directors, the following were authorised: (a) the Annual Financial Statements of DESFA SA relating to its tenth fiscal year (01-01-2016 through 31-12-2016), as per the International Financial Reporting Standards, and (b) the Profit Allocation proposal regarding DESFA's tenth fiscal year (01-01-2016 through 31-12-2016). Moreover, by virtue of BoD Decision No. 324/04/09.02.2017 the Directors authorised the Management Report for the same period (01-01-2016 through 31-12-2016), as per the requirements of the Compliance Programme. The Supervisory Board will now have to be informed on DESFA's Annual Financial Statements for its tenth fiscal year (01-01-2016 through 31-12-2016) and authorise the Profit Allocation proposal for that period.
6. In relation to checkpoint 6.5 it was established that DESFA applies strictly all statutory and regulatory procedures relating to the conclusion of loan agreements with third parties which are independent of the VIU or its affiliates, for the purpose of financing its investments. Hence, in relation to fiscal year 2016, DESFA's Debt-Equity ratio did not exceed 0.5<sup>8</sup>, according to RAE Decision No. 594/2012 (GG Series B, Issue No. 2093 / 05.07.12) and the provisions of Article 88 of Law 4001/2011, as in force. During that year DESFA did not enter into any new loan agreements. It is noted that, by virtue of BoD Decision No. 314/03/06.10.2016, a 40-million-Euro disbursement was authorised (2nd loan agreement with EIB) for the 2nd Upgrade of the facility on Revithousa.
7. It is also noted that DESFA has never effected a share capital increase to this date; hence, its share capital remains unchanged (€639.1 Mio.) (checkpoint 6.6).

#### 4.4.4 Operational Independence

Operational independence (checkpoint 3.2) refers to (i) the human, technical or other resources required in order for DESFA to operate efficiently, and (ii) a series of use restrictions on the supply of services to and/or procurement of services by, the VIU, which ensures the confidentiality of commercially sensitive and classified information.

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<sup>8</sup> According to the authorised management report of DESFA's Board of Directors (Decision No. 324/04/09.02.2017) regarding DESFA's tenth fiscal year (01-01-2016 through 31-12-2016)

It is noted that DESFA's staff have no employment relations with the VIU or any of its affiliates. Furthermore, DESFA procures administrative, financial and technical support services from external service providers. Following an inspection of the relevant agreements, it was established that those are consistent with the requirements of the Compliance Programme (confidentiality and exclusivity clauses).

It was also established that DESFA does not share any information systems (in terms of both hardware and software) with any department of the VIU or its affiliates or any consultants or associated contractors in relation to its information and security systems. All agreements signed with the aforementioned parties include confidentiality and exclusivity clauses which ensure the confidentiality of commercially sensitive and classified information.

Lastly, it was established that DESFA indeed provides services to the VIU and its affiliates (Natural Gas Corporation ("EPA") of Attica, Thessalia and Thessaloniki), however the particular services are offered to all system Users under the same terms and conditions, in accordance with Article 63B(1) (c) of Law 4001/2011, as in force.

#### 4.4.5 Distinct Corporate Identity

In line with the provisions of Law 4001/2011, DESFA applies proper procedures to establish a distinct corporate identity, so as not to be confused with the VIU or its affiliates (checkpoint 2.1). Such distinct corporate identity is also enhanced by the fact that DESFA is under an obligation to maintain its Departments at different locations from the VIU (checkpoint 2.2).

Following a control procedure it was established that, by virtue of BoD Decision No. 232/02/10.04.2014, DESFA has an authorised Corporate Identity Policy in place. For reasons of efficient implementation of the above, the Compliance Officer has proposed a revision of such Policy, with a view to including clearer and more thorough guidelines, based on the requirements of the Compliance Programme. The competent organisational unit has drafted a Guideline (Guideline 21.01-01) entitled "Corporate Identity & Corporate Communication", which was authorised by DESFA's Managing Director on 08.02.2017.

In relation to checkpoint 2.2, following a control procedure it was established that the competent organisational unit has lease agreements in place in relation to DESFA's building facilities, as per the requirements of the Compliance Programme.

#### 4.4.6 DESFA - DEPA Commercial Relations

The commercial relations between DESFA and the VIU and its affiliates are subject to strict rules, which ensure DESFA's independence as a natural gas operator, as per Article 63B(1) (c) of Law 4001/2011.

As part of the Regulated Services, DESFA signed an agreement with the VIU, following a tender procedure, on the Supply of Operational (DESFA Tender No. 554/15/ΔΔΠ) and Balancing Gas (DESFA Tender No. 555/15/ΔΔΠ), to meet the needs of the NNGTS for year 2016, which was extended for three months (see paragraph 4.2.2), in accordance with the terms of the agreement.

As part of the Non-Regulated Services, DESFA has signed relevant agreements with the VIU and some of its affiliates (see paragraph 4.1.5).

Following a control procedure it was established that these services are offered by DESFA under the same terms and conditions, to all System Users, on a non-discriminatory basis.

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## Chapter II

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### 5 Compliance Officer's Recommendations adopted for more efficient implementation of the Compliance Programme

This section lays down procedures intended to improve the Compliance Programme, as same were proposed by the Compliance Officer since the date the latter took up duties and were adopted by DESFA, for a more thorough briefing of DESFA's staff on compliance-related matters. Such procedures are intended to develop and implement a series of actions which will activate the sense of corporate culture on compliance-related matters.

#### 5.1 DESFA Compliance Guide

During the first year that the Compliance Officer was appointed in DESFA, a Compliance Guide was drafted under the title "Guide to I.D.E.A. for DESFA S.A", and submitted to DESFA's Board of Directors and Supervisory Board for information purposes. The Guide was handed out to all staff in February 2015, whereas in July 2016 its first revised edition was distributed electronically, as presented at the 29th Session of DESFA's Supervisory Board.

IDEA's primary goal is to provide a modern and updated Compliance Guide laying down the principles that all corporate bodies and human resources need to apply in order to manage DESFA efficiently, perform their duties effectively and ensure DESFA's compliance with its obligations as an ITO.

#### 5.2 DESFA Website Restructuring

According to the EU and Greek legislation, and having due regard to the strict regulatory framework governing DESFA's operations, it was considered advisable to create a separate section on DESFA's website entitled "Compliance", providing information to both DESFA's staff and third parties on matters relating to the natural gas sector. This structured section is informative in nature and has been active since late June 2014. It includes some important Compliance-related instruments, e.g. the Compliance Programme, EU Directives, Greek Laws, Codes and Annual Compliance Reports. It is pointed out that the above section is regularly updated to reflect all recent developments relating to the aforementioned matters.

#### 5.3 Communication Channel

In order to ensure compliance by DESFA's corporate bodies and staff with the applicable regulations governing DESFA's operations, with the Codes and with the corporate Policies, a communication channel is established between the Compliance Officer and DESFA's staff and the natural gas transmission system Users. This is intended to ensure that the Compliance Officer gains knowledge of all non-compliance incidents relating to unethical or illegal conduct (e.g. conflicts of interest, disclosure of commercially sensitive information, discriminatory treatment of System Users, non-compliance with the Compliance Programme/DESFA Policies), and that the anonymity of the persons reporting those incidents is thoroughly protected. Such communication channel has been active since July 2015 and consists in the following four communication methods:

- e-reporting, electronic form of submission via the corporate website (through [www.desfa.gr](http://www.desfa.gr)),

- Postal communication
- e-mail message communication ([complianceofficer@desfa.gr](mailto:complianceofficer@desfa.gr))
- Fax message communication.

Moreover, as part of the publication of DESFA's quarterly news release entitled "*Communication Channel*"<sup>9</sup>, a section was created entitled "Compliance Officer" for the purpose of informing DESFA's corporate bodies and staff (having any form of employment relationship with DESFA) and all other parties involved in the natural gas sector, including the Independent Operator, on matters of compliance with the applicable EU competition rules. This section presents Compliance Officer's work and includes certain informative publications relating to DESFA's compliance policy and general activities. It was originally integrated in the July-Aug-Sept 2014 Issue and is still published to this date.

#### 5.4 e-idea Platform

As part of the effort to optimise the Compliance Programme monitoring and implementation procedures, DESFA's Compliance Officer, acting in cooperation with the Director of the Department of Security, Management Systems and Compliance Programme, has developed and put into effect a new electronic application for the Compliance Programme, as same is currently in effect. The relevant electronic platform was developed in Microsoft Sharepoint, was named "e-idea" (*electronic idea*) and operates successfully for the second year. It is noted that this e-monitoring system is a safe storage and management space for the data arising from the Compliance Programme and it is used exclusively by authorised staff, as per the requirements of the Compliance Programme.

## 6 Compliance Officer's recommendations for more efficient implementation of the Compliance Programme

### 6.1 Revision of DESFA's Compliance programme

Having regard to:

- The revised edition of the NNGS Management Code (GG Series B, Issue No. 3131/09.12.2013);
- The draft of the 3rd amendment to the NNGS Management Code, currently under consultation;
- DESFA's updated Organisation Chart, as per the latest Management Decision (Decision No. 313/18.10.2016) amending DESFA's organisational structure;
- DESFA's Compliance Guide issued in July 2016;
- The Compliance Programme implementation procedures applied by DESFA's staff;
- The electronic communications exchanged between the Compliance Officer and the Operations Manager, the Coordination Manager and the Head of the Department of Public Relations and Corporate Communication, entitled "Revision of the Compliance Programme of DESFA SA";
- DESFA's Compliance Programme, as in force, as per RAE Decision No. 184/25.04.2013,

it is established that DESFA's Compliance Programme needs immediate review.

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<sup>9</sup> The quarterly corporate publication "Communication Channel" is posted also on DESFA's website in electronic format.



An efficient and effective Compliance Programme prevents and manages efficiently the risks arising from DESFA's operations in relation to non-compliance with the applicable regulatory framework. This purpose is achieved through proper policies and procedures and efficient risk identification, control and monitoring mechanisms, whose main objective is to safeguard the I.D.E.A.. To attain these objectives, it is imperative that the Compliance Programme is consistently implemented in the context of the ever-changing regulatory framework.

Therefore, it was recommended to DESFA's management to carry out a review of the Compliance Programme. Such review is currently under way - although at a slow pace. The need to review the Compliance Programme was also pointed out to RAE, by means of the annual Compliance Report 2015-2016 (Ref. No. 015/21.03.2016, DESFA Compliance Officer's office).

## 6.2 Integration of the Code of Ethics in the Compliance Programme

On 27.2.2013 DESFA's Board of Directors authorised the DESFA Code of Ethics, insofar as it applies to DESFA's relations with the users and the VIU. Such Code lays down rules of conduct which apply to all DESFA staff and all members of the Board of Directors, the Supervisory Board and DESFA's inferior administrative bodies, including all persons employed by DESFA under employment contracts of definite or indefinite term and any attorneys offering salaried services to DESFA SA.

The drafting and implementation of such Code was a statutory obligation for DESFA, arising from Law 3428/2005 and from the Natural Gas Licensing Regulation (Ministerial Decision D1/A/5815, GG Series B, Issue No. 464 /19.04.2010), since DESFA is the exclusive owner of the NNGS and it is liable to hold a NNGS Ownership and Operation Permit. In implementation of the aforementioned provisions, in conjunction with the provisions of Law 3428/2005, as the latter were subsequently replaced by Law 4001/2011, DESFA was granted an Ownership and Operation Permit in relation to the National Natural Gas System (following an application submitted to that effect pursuant to Ministerial Decision No. D1/A/6537/22.03.2011 (GG 18.04.2011)). The above Ministerial Decision provided, among others, for DESFA's obligation to comply with the terms of Article 36 of the Licensing Regulation, including compliance with the Code of Ethics.

Following the above, Law 4001/2011, as in force, was issued, transposing the provisions of Directive 2009/73/EC and assigning to DESFA SA (by force of law) the operation of the NNGS. The same law further provided that DESFA's operations would be governed by the regulations of that law. The same provision further provides that any reference to other provisions (NNGS ownership/operation permit) shall refer to the relevant provisions of that Law [Article 67(3) of Law 4001/2011].

Moreover, Article 195(5) of Law 4001/2011 provides that "*As of the date of effect of this Law, any general or specific provisions contravening the provisions of this law or referring to any matters which are regulated hereunder, shall be abolished*".

Based on the foregoing, it is recommended that the existing Code of Ethics of DESFA SA<sup>10</sup> be integrated in the Revised Compliance Programme. It is noted that DESFA SA, as a public company limited by shares, reserves the right to draft a Code of Ethics in accordance with

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<sup>10</sup> DESFA's Code of Ethics is entitled "CODE OF ETHICS OF DESFA SA, GOVERNING DESFA'S RELATIONS WITH USERS AND WITH THE VERTICALLY INTEGRATED CORPORATION"

the provisions of Law 2190/1920. Such Code shall be governed by the principles and the values established by DESFA's management in relation to any matters of professional conduct, ethics, or in relation to any other ethical, accounting, auditing or other regulatory matters.

### 6.3 Information Classification Policy Guideline

The rule of confidentiality refers to the obligations of DESFA's staff to treat as strictly confidential any commercially sensitive information that comes to their knowledge as part of their duties, and prevent a biased disclosure of information which refers to their own actions, where this could offer a commercial advantage to the recipient.

To ensure compliance with the confidentiality obligation applicable to DESFA's staff, and as part of Compliance Officer's duties (as stated in the Annual Compliance Report 2015-2016), DESFA's management was recommended to adopt and implement an Information Classification and Management System to ensure confidentiality (as defined above).

The competent organisational unit has drafted a Guideline to that effect, entitled "*Management of Corporate Correspondence*" which has been under review by DESFA for over a year.

### 6.4 Adaptation of the Compliance Programme to new laws and regulations

In addition to the regulatory and general statutory framework that governs DESFA's operations - by virtue and on the basis of which the current Compliance Programme was drafted - DESFA will be required in the future (is actually already required) to integrate in its organisation and operation all new statutory or regulatory provisions and guidelines issued by RAE or other regulatory authorities. It is indicatively mentioned that a 3rd amendment to the NNGS Management Code is expected soon (which is bound to affect a large portion of the current Compliance Programme), while RAE has already supplied guidelines on Accounting Separation Principles and Rules as per Articles 80A and 89 of Law 4001/2011, as in force, introducing amendments to paragraphs 6.7-6.9 of the Compliance Programme. Moreover, various other existing statutory and regulatory provisions are also expected to undergo amendments. These changes are bound to have an impact on the Compliance Programme, which will have to be amended accordingly, to ensure consistency with the new regulations.

Based on the foregoing, a guideline will have to be issued, ensuring the Programme's prompt adaptation to the new regulatory requirements, updating its requirements accordingly and ensuring the unflinching attainment of its objectives.

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## Chapter III

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## 7 Conclusions

- The ITO (Independent Transmission Operator) model selected by DESFA is being successfully implemented, in line with the ever-changing legislative framework that governs the energy market.

- Compliance Officer's prompt and efficient handling of all matters falling within the scope of his powers and duties (e.g. through constant monitoring of all developments in the energy market and actions taken to prevent, identify and handle any activities potentially violating the institutional framework governing DESFA's operations) has improved the corporate culture of DESFA's staff on matters of regulatory compliance, ensuring fulfilment of all requirements for DESFA's certification as an ITO.
- DESFA has failed to meet the prescribed time limits and in certain situations failed to complete the procedures laid down in the effective Compliance Programme (see, by way of indication, paragraphs 4.2.2 and 4.4.3 of this report). This is primarily due to the amendments that were introduced to DESFA's tendering procedures by virtue of law 4412/2016 (GG Series A, Issue No. 147/08.08.2016) on "Public Contracts, Works, Procurements and Services (adaptation to Directives 2014/24/EU and 2014/25/EU)" as well as to the required re-assessment of the demand for natural gas due to extraordinary circumstances.
- In light of the extensive and radical changes introduced to the regulatory framework, the role of the Compliance Programme has become particularly important, rendering imperative its prompt update to ensure its efficient adaptation to the ever-increasing requirements that apply in relation to DESFA's operations and its certification as an ITO. It is therefore imperative that the existing Compliance Programme be promptly revised and adapted to the new circumstances, as same are described in paragraph **Error! Reference source not found.** hereof.
- In conclusion, we should praise Compliance Officer's exquisite cooperation with all organisational units of DESFA SA, as part of his duties, as well as with the members of the Board of Directors, the Supervisory Board and the management executives, and, most importantly, with DESFA's staff, whenever any form of communication or cooperation between them was required.

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